

**PRAIRIE LAKES
AREA EDUCATION AGENCY 8**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2008

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PRAIRIE LAKES AREA EDUCATION AGENCY 8

OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
Board of Directors		
Dean Saunders	President	2008
Ramon Fisher	Vice President	2010
Ed O'Leary	Member	2009
Steven Peterson	Member	2009
Bruce Bahnson	Member	2009
Floyd Thies	Member	2010
Rhonda Christensen	Member	2010
Sue Beers	Member	2008
Todd Lundgren	Member	2008
Agency		
Dr. L. Kay Forsythe	Chief Administrator	2008
Ginger Hoffman	Chief Administrator Assistant and Board Secretary	2008
Michelle R. Dowd	Business Manager and Board Treasurer	Indefinite



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Prairie Lakes Area Education Agency 8
Fort Dodge, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 as of and for the year ended June 30, 2008, which collectively comprise the Prairie Lakes Area Education Agency 8's basic financial statements listed in the table of contents. These financial statements are the responsibility of Prairie Lakes Area Education Agency 8's officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2008 on our consideration of Prairie Lakes Area Education Agency 8's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 27 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Prairie Lakes Area Education Agency 8's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 10, 2008

PRAIRIE LAKES AREA EDUCATION AGENCY 8

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prairie Lakes Area Education Agency 8 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$22,720,171 in fiscal 2007 to \$24,091,883 in fiscal 2008. The increase in General Fund revenues was attributable to an increase in local and federal grant revenue in fiscal 2008.
- General Fund expenditures increased from \$22,571,723 in fiscal 2007 to \$23,792,818 in fiscal 2008. The increase in expenditures was due primarily to 1) an increase in services provided to the local school districts, and 2) an increase in personnel costs including negotiated salary and benefits contracts, including insurance increases.
- The Agency's General Fund balance increased from \$3,596,477 at the end of fiscal 2007 to \$3,620,064 at the end of fiscal 2008, a 0.66% increase. One reason the General Fund balance increased is because of the Agency's increase in General Fund revenue for fiscal 2008.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Prairie Lakes Area Education Agency 8 as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reporting the Agency's Financial Activities

Government-wide Financial Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities consist of the following:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show it is properly using certain revenues, such as federal grants.

The Agency has one kind of fund:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Funds and 3) the Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Prairie Lakes Area Education Agency 8's net assets at the end of fiscal 2008 totaled approximately \$6.5 million. This compared to approximately \$6.4 million at the end of fiscal 2007. The analysis that follows focuses on the net assets and changes in net assets.

		CONDENSED STATEMENT OF NET ASSETS	
		Governmental Activities	
		2008	2007
Assets			
Current and other assets	\$	7,411	\$ 7,483
Capital assets		5,859	5,816
Total assets		13,270	13,299
Liabilities			
Long-term liabilities		2,887	2,923
Other liabilities		3,895	3,932
Total liabilities		6,782	6,855
Net Assets			
Invested in capital assets, net of related debt		3,384	3,176
Restricted		364	358
Unrestricted		2,740	2,910
Total net assets	\$	6,488	\$ 6,444

The Agency's combined net assets increased by .7%, or approximately \$61,000, from fiscal 2007. The increase occurred primarily in governmental activities as a result of an increase in local and federal grant revenue in fiscal 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis details the changes in net assets resulting from the Agency's activities:

	CHANGES IN NET ASSETS	
	Governmental Activities	
	2008	2007
Revenues:		
Program revenues:		
Charges for service	\$ 838	\$ 932
Operating grants and contributions	12,353	11,437
General revenues:		
Property tax	5,611	5,521
State foundation aid	5,768	5,413
Unrestricted investment earnings	133	121
	<u>24,703</u>	<u>23,424</u>
Program expenses:		
Instruction	627	643
Student support services	16,589	14,006
Instructional staff support services	2,525	3,708
General administration	808	715
Business administration	689	953
Plant operations and maintenance	715	791
Central and other support services	2,503	2,468
Non-institutional programs	90	-
Long-term debt interest	113	157
Total program expenses	<u>24,659</u>	<u>23,441</u>
Increase (decrease) in net assets	44	(17)
Net assets beginning of year	<u>6,444</u>	<u>6,461</u>
Net assets end of year	<u>\$ 6,488</u>	<u>\$ 6,444</u>

Property tax and state foundation aid account for 46% of the total revenue while operating grants and contributions from local, state and federal sources account for 50% of the total revenue. The Agency's expenses primarily relate to instruction and student and instructional support services, which account for 78% of the total expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental Activities

Revenues for governmental activities were \$24,702,773 and expenses were \$24,673,075. In a difficult budget year, the Agency was able to provide services needed by local school districts and remain within budget.

INDIVIDUAL FUND ANALYSIS

As previously noted, Prairie Lakes Area Education Agency 8 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$3,984,124, above last year's ending fund balances of \$3,954,426. The primary reason for the increase in combined fund balances in fiscal 2008 was due to an increase in local and federal grant revenues.

Governmental Fund Highlights

- The Agency's increasing General Fund financial position is the product of an increase in local and federal grant revenues.
- The General Fund balance increased from \$3,596,477 to \$3,620,064 due, in part, to the additional funds received from local and federal grants.
- The Capital Projects Fund balance decreased due to the completion of the Pocahontas building. The Agency ended fiscal 2007 with a balance of \$60. Fiscal 2008 ended with a balance of \$0 due to the project being complete.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Agency amended its budget once to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts.

The Agency's total revenues were \$551,156 less than total budgeted revenues, a variance of less than 1%. Total expenditures were \$580,854 less than budgeted, a variance of 2.3%

A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the Agency had invested \$5,858,784, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net increase of approximately \$43,250 from last year. This increase was primarily due to building improvements.

Prairie Lakes Area Education Agency 8 had depreciation expense of \$296,193 in fiscal 2008 and total accumulated depreciation of \$3,638,174 at June 30, 2008. More detailed information about capital assets is available in Note 4 to the financial statements.

Long-Term Debt

At June 30, 2008, the Agency had \$2,475,000 in long-term debt outstanding compared to \$2,640,000 at June 30, 2007. At June 30, 2008, the Agency had \$880,176 in compensated absences compared to \$686,205 at June 30, 2007. More detailed information about the Agency's long-term liabilities is available in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware of existing circumstances that could significantly affect its financial health in the future:

- The Agency has experienced an annual decrease in the number of students enrolled in local districts for the past several years. That decrease is expected to continue, and since controlled funding is driven by the number of students enrolled, decreased funding from the state is anticipated for the upcoming fiscal year.
- The Agency has been notified to expect little or no increase in Federal IDEA funding for the immediate future.
- The Agency began construction of its new central facility located in Pocahontas, Iowa in October of 2005. Funding of the \$2,490,000 project was financed by the sale of lease certificates. Repayment of principal and interest began in December of 2005 and will continue until June of 2025 with an average yearly payment of \$183,091.
- The 2003 Legislature reduced the Agency's fiscal year 2003/2004 state aid by \$1,306,673 and also imposed a \$995,807 fund balance reduction. The 2004 and 2005 Legislatures extended the \$1,299,808 and \$1,433,562 reductions to fiscal years 2004/05 and 2005/06, respectively. While a portion of the reduction was restored for 2006/07 to an amount of \$1,160,503, for 2007/08 to \$956,134, and for 2008/09 to \$751,765. These reductions have impacted the Agency's ability to provide services to schools and will continue to do so in future years until full funding is restored to pre-2003 levels.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager's Office of Prairie Lakes Area Education Agency 8, at 1235 5th Ave South, Fort Dodge, Iowa 50501.

BASIC FINANCIAL STATEMENTS

PRAIRIE LAKES AREA EDUCATION AGENCY 8

STATEMENT OF NET ASSETS

June 30, 2008

	Governmental Activities
Assets	
Cash and pooled investments	\$ 4,611,531
Receivables:	
Accounts	137,924
Due from other governments	1,501,874
Inventories	92,309
Restricted ISCAP assets:	
Investments	1,066,623
Accrued interest receivable	403
Capital assets (net of accumulated depreciation)	5,858,784
Total assets	13,269,448
Liabilities	
Payables:	
Accounts	314,395
Salaries and benefits payable	1,966,686
ISCAP unamortized premium	18,145
ISCAP warrants payable	1,058,000
ISCAP accrued interest payable	406
Deferred revenue:	
Federal	23,621
Other	45,287
Long-term liabilities:	
Portion due or payable within one year:	
Certificates of participation	175,000
Compensated absences	152,222
Early retirement obligation	140,655
Portion due or payable after one year:	
Certificates of participation	2,300,000
Early retirement obligation	587,299
Total liabilities	6,781,716
Net Assets	
Invested in capital assets, net of related debt	3,383,784
Restricted for:	
Debt service	364,060
Unrestricted	2,739,888
Total net assets	6,487,732
Total liabilities and net assets	\$ 13,269,448

See Notes to Financial Statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Functions/Programs:			
Governmental Activities:			
Instruction	\$ 626,945	\$ 244,548	\$ 329,880
Student support services	16,588,469	-	9,817,494
Instructional staff support services	2,525,112	372,214	2,113,653
General administration	808,299	-	-
Business administration	688,896	-	-
Plant operations and maintenance	715,113	-	-
Central and other support services	2,502,440	220,952	2,128
Noninstitutional programs	90,300	-	90,300
Facilities acquisition and construction	60	-	60
Interest on long-term debt	113,161	-	-
Total governmental activities	24,658,795	837,714	12,353,515

General Revenues:

Property taxes, levied for general purposes
State Foundation aid
Unrestricted investment earnings

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets	
Governmental Activities	Total
\$ (52,517)	\$ (52,517)
(6,770,975)	(6,770,975)
(39,245)	(39,245)
(808,299)	(808,299)
(688,896)	(688,896)
(715,113)	(715,113)
(2,279,360)	(2,279,360)
-	-
-	-
(113,161)	(113,161)
(11,467,566)	(11,467,566)
5,610,573	5,610,573
5,767,937	5,767,937
133,034	133,034
11,511,544	11,511,544
43,978	43,978
6,443,754	6,443,754
\$ 6,487,732	\$ 6,487,732

PRAIRIE LAKES AREA EDUCATION AGENCY 8

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

		<div> <div>Special Revenue</div> <div>Special Education Instruction</div> </div>	
	General		
Assets			
Cash and pooled investments	\$ 4,217,049	\$	30,422
Receivables:			
Accounts	137,924		-
Due from other governments	1,448,091		53,783
Inventories	92,309		-
Restricted ISCAP assets:			
Investments	1,066,623		-
Accrued interest receivable	403		-
Total assets	\$ 6,962,399	\$	84,205
Liabilities and Fund Balances			
Liabilities:			
Payables:			
Accounts	\$ 313,360	\$	1,035
Salaries and benefits payable	1,883,516		83,170
ISCAP unamortized premium	18,145		-
ISCAP warrants payable	1,058,000		-
ISCAP accrued interest payable	406		-
Deferred revenue:			
Federal	23,621		-
Other	45,287		-
Total liabilities	3,342,335		84,205
Fund balances:			
Reserved for:			
Inventories	92,309		-
Media materials	250,151		-
Other purposes	20,900		-
Unreserved:			
Designated for subsequent year's expenditures	880,176		-
Undesignated	2,376,528		-
Total fund balances	3,620,064		-
Total liabilities and fund balances	\$ 6,962,399	\$	84,205

See Notes to Financial Statements.

Exhibit C

Nonmajor	Total
\$ 364,060	\$ 4,611,531
-	137,924
-	1,501,874
-	92,309
-	1,066,623
-	403
\$ 364,060	\$ 7,410,664

\$ -	\$ 314,395
-	1,966,686
-	18,145
-	1,058,000
-	406
-	23,621
-	45,287
-	3,426,540

-	92,309
-	250,151
-	20,900
-	880,176
364,060	2,740,588
364,060	3,984,124
\$ 364,060	\$ 7,410,664

**RECONCILIATION OF THE BALANCE SHEET--
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2008**

Total governmental fund balances (page 13) \$ 3,984,124

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$9,496,958 and the accumulated depreciation is \$3,638,174. 5,858,784

Long-term liabilities, including capital leases, compensated absences, and early retirement obligations, are not due and payable in the current period and, therefore, are not reported in the funds. (3,355,176)

Net assets of governmental activities (page 11) \$ 6,487,732

See Notes to Financial Statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES -- GOVERNMENTAL FUNDS
Year Ended June 30, 2008**

	<div> <div>Special Revenue</div> <div>Special Education Instruction</div> <div>Capital Project</div> </div>		
	General		
Revenues:			
Local sources	\$ 6,744,550	\$ 244,548	\$ -
State sources	7,671,823	357,488	-
Federal sources	9,675,510	-	-
Total revenues	24,091,883	602,036	-
Expenditures:			
Current:			
Instruction	-	600,462	-
Student support services	16,383,637	-	-
Instructional staff support services	2,653,162	-	-
General administration	773,114	-	-
Business administration	733,729	-	-
Plant operations and maintenance	670,066	1,574	-
Central and other support services	2,488,810	-	-
Noninstitutional programs	90,300	-	-
Facilities acquisition and construction	-	-	60
Debt service	-	-	-
Total expenditures	23,792,818	602,036	60
Excess (deficiency) of revenues over (under) expenditures	299,065	-	(60)
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	(275,478)	-	-
Total financing sources (uses)	(275,478)	-	-
Net change in fund balances	23,587	-	(60)
Fund balances, beginning of year	3,596,477	-	60
Fund balances, end of year	\$ 3,620,064	\$ -	\$ -

See Notes to Financial Statements.

Exhibit E

Nonmajor		Total	
<hr/>		<hr/>	
\$	8,854	\$	6,997,952
	-		8,029,311
	-		9,675,510
<hr/>		<hr/>	
	8,854		24,702,773
<hr/>		<hr/>	
	-		600,462
	-		16,383,637
	-		2,653,162
	-		773,114
	-		733,729
	-		671,640
	-		2,488,810
	-		90,300
	-		60
	278,161		278,161
<hr/>		<hr/>	
	278,161		24,673,075
<hr/>		<hr/>	
	(269,307)		29,698
<hr/>		<hr/>	
	275,478		275,478
	-		(275,478)
<hr/>		<hr/>	
	275,478		-
<hr/>		<hr/>	
	6,171		29,698
	357,889		3,954,426
<hr/>		<hr/>	
\$	364,060	\$	3,984,124
<hr/>		<hr/>	

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2008**

Net change in fund balances - total governmental funds (page 15) \$ 29,698

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Capital outlay exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 347,606	
Depreciation expense	(296,193)	
		51,413

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources (8,163)

Certificates of participation provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of certificate principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which payments exceeded proceeds. 165,000

Compensated absences and early retirement obligation expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. (193,970)

Change in net assets of governmental activities (page 12) \$ 43,978

See Notes to Financial Statements.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Prairie Lakes Area Education Agency 8 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 48 school districts and private schools in a 14-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

A. Reporting Entity:

For financial reporting purposes, Prairie Lakes Area Education Agency 8 has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. Prairie Lakes Area Education Agency 8 has no component units that meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation:

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue, Special Education Instruction Fund is used to account for a program where the Area Education Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the individual school districts.

C. Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and other accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (continued):

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. Assets, Liabilities and Fund Equity:

Cash and Pooled Investments – Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value and non-negotiable certificates of deposit that are stated at cost.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Buildings	\$ 5,000
Vehicles	5,000
Furniture and equipment	5,000
Library books	Aggregated annual purchases

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50
Vehicles	5
Furniture and equipment	10
Library books	5

Salaries and Benefits Payable – Payroll and related expenses for all licensed staff with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (continued):

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year end.

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Note 2. Cash and Pooled Investments

The Agency's deposits in banks at June 30, 2008 were entirely covered by Federal depository insurance or by the State sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk: The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

NOTES TO FINANCIAL STATEMENTS

Note 3. Iowa School Cash Anticipation Program (ISCAP)

The Agency participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and are provided monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co., NA is trustee of the program. These accounts are reflected as restricted assets on the Statement of Net Assets and Balance Sheet.

A summary of the Agency's participation in ISCAP as of June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A	6/27/07	6/27/08	\$ -	\$ -	\$ -	\$ -
2008-09A	6/26/08	6/25/09	1,066,623	403	1,058,000	406
Total			\$ 1,066,623	\$ 403	\$ 1,058,000	\$ 406

The Agency pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the Agency must repay the outstanding withdrawal from its General Fund receipts. In addition, the Agency must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2008 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2007-08A	\$ -	\$ 800,000	\$ 800,000	\$ -
2008-09A	-	-	-	-
	\$ -	\$ 800,000	\$ 800,000	\$ -

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.455%
2008-09A	3.500%	3.469%

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 166,912	\$ -	\$ -	\$ 166,912
Construction in process	-	-	-	-
Total capital assets not being depreciated	166,912	-	-	166,912
Capital assets being depreciated:				
Buildings and improvements	5,567,351	100,768	-	5,668,119
Furniture and equipment	724,089	77,262	-	801,351
Vehicles	112,999	-	-	112,999
Library books and films	2,610,653	169,576	32,652	2,747,577
Total capital assets being depreciated	9,015,092	347,606	32,652	9,330,046
Less accumulated depreciation for:				
Buildings and improvements	1,279,543	112,488	-	1,392,031
Furniture and equipment	262,290	64,501	-	326,791
Vehicles	72,577	13,630	-	86,207
Library books and films	1,752,060	105,574	24,489	1,833,145
	3,366,470	296,193	24,489	3,638,174
Total capital assets being depreciated, net	5,648,622	51,413	8,163	5,691,872
Governmental activities capital assets, net	\$ 5,815,534	\$ 51,413	\$ 8,163	\$ 5,858,784

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:

Student support services	\$ 2,611
Instructional staff support services	114,598
General administration/Building administration	35,026
Plant operations and maintenance	128,387
Central and other support services	15,571

Total governmental activities
depreciation expense

\$ 296,193

NOTES TO FINANCIAL STATEMENTS

Note 5. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Certificates of Participation	\$2,640,000	\$ -	\$ 165,000	\$ 2,475,000	\$ 175,000
Compensated absences	137,825	23,552	9,155	152,222	152,222
Early retirement obligation	548,381	274,433	94,860	727,954	140,655
	<u>\$3,326,206</u>	<u>\$ 297,985</u>	<u>\$ 269,015</u>	<u>\$ 3,355,176</u>	<u>\$ 467,877</u>

Early Retirement Obligation:

The Agency offers a voluntary early retirement plan to its employees. Application requirements are as follows:

- 1) Employee must be 59 years of age or meet the Iowa Public Employees' Retirement System (IPERS) "Rule of 88" for eligibility prior to July 1 of the year in which retirement would commence.
- 2) Employee must have provided 15 years of full-time continuous service prior to July 1 of the retirement year.
- 3) Employee must submit application and resignation between January 1 and March 1 of the year of retirement.
- 4) Employee must currently be eligible and covered by the group health insurance plan of Prairie Lakes AEA.

All requests for retirement and acceptance of resignations must be approved by the Board of Directors.

For those employees who are approved for early retirement under this policy, the Agency will make a payment toward the single health insurance premium up to the rate effective for the \$750 deductible during the final year of employment. The insurance will be provided for the lesser of six years or through the month previous to the month the employee reaches normal Medicare eligibility. If an employee exercises IPERS "Rule of 88" for eligibility, before age 59, the employee shall be responsible for the insurance premium to reaching the age of 59, plus any increase in the insurance premium until normal Medicare eligibility. The health insurance benefit will discontinue if the retired employee takes another position after retirement that offers a benefit of paid health insurance or discontinues participation in the Agency's health insurance plan. The employee's continued participation in the program must be approved by the insurance carrier.

The purpose of the early retirement program is to provide qualifying employees an option to voluntarily retire at a time they may find beneficial and to provide economy and efficiency in the Agency.

At June 30, 2008, the Agency has obligations to thirty-seven participants with a total liability of \$727,954. Actual early retirement expenditures for the year ended June 30, 2008 totaled \$94,860.

NOTES TO FINANCIAL STATEMENTS

Note 5. Changes in Long-term Liabilities (Continued)

Certificates of Participation:

The Agency has sold Certificates of Participation for the acquisition, the remodeling and improvement of, and the installation of furnishings and equipment at the office facility in Storm Lake, Iowa for a total of \$1,500,000. The Certificates of Participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twenty years with an interest rate ranging from 5.85% to 6.75%. The following is a schedule by year of the future minimum payments required:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 80,000	\$ 15,500	\$ 95,500
2010	45,000	10,700	55,700
2011	-	8,000	8,000
2012	-	8,000	8,000
2013	-	8,000	8,000
Thereafter	125,000	24,000	149,000
	<u>\$ 250,000</u>	<u>\$ 74,200</u>	<u>\$ 324,200</u>

Payments for the certificates of participation for the year ended June 30, 2008, including interest, totaled \$94,887.

The Agency has sold Certificates of Participation for the construction of the office facility in Pocahontas, Iowa, for a total of \$2,490,000. The Certificates of Participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twenty years with an interest rate ranging from 3.5% to 4.35%. The following is a schedule by year of the future minimum payments required:

Payments for the Certificates of Participation for the year ended June 30, 2008, including interest total \$183,274.

Year Ending June 30,	Principal	Interest	Total
2009	\$ 95,000	\$ 90,124	\$ 185,124
2010	100,000	86,680	186,680
2011	100,000	83,055	183,055
2012	105,000	79,305	184,305
2013	110,000	75,367	185,367
Thereafter	1,715,000	501,335	2,216,335
	<u>\$ 2,225,000</u>	<u>\$ 915,866</u>	<u>\$ 3,140,866</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Operating Leases

The Agency has leased various equipment and facilities within the area to support and house the different zones of the Agency. These leases have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2008 and September 30, 2016. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008.

<u>Year Ending June 30,</u>	
2009	\$ 211,107
2010	170,943
2011	170,943
2012	159,123
2013	84,675
Thereafter	254,025
	<u>\$ 1,050,816</u>

The total rental expenditures for the year ended June 30, 2008 for all operating leases, except those with terms of a month or less that were not renewed, was \$136,175.

Note 7. Lease of Office Space

The Agency, as lessor, leases 55% of a building as office space to several entities. The lease terms expire in various years through 2012 and range from \$6,000 to \$30,635 per lease annually.

At June 30, 2008 future minimum lease payments receivable under noncancelable operating leases are as follows:

<u>Year Ending June 30,</u>	
2009	\$ 30,635
2010	30,635
2011	30,635
2012	30,635
2013	-
Thereafter	-
	<u>\$ 122,540</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the Agency is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$838,123, \$724,265 and \$657,724, respectively, equal to the required contribution for each year.

Note 9. Risk Management

Prairie Lakes Area Education Agency 8 is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

REQUIRED SUPPLEMENTARY INFORMATION

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
CHANGES IN BALANCES -- BUDGET AND ACTUAL --
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
Required Supplementary Information
Year Ended June 30, 2008**

	Governmental Fund Types Actual	Total Actual
Revenues:		
Local sources	\$ 6,997,952	\$ 6,997,952
State sources	8,029,311	8,029,311
Federal sources	9,675,510	9,675,510
Total revenues	24,702,773	24,702,773
Operating Transfers In and Other Sources	275,478	275,478
Expenditures/Expenses:		
Current:		
Instruction	600,462	600,462
Student support services	16,383,637	16,383,637
Instructional staff support services	2,653,162	2,653,162
General administration	773,114	773,114
Business administration	733,729	733,729
Plant operations and maintenance	671,640	671,640
Central and other support services	2,488,810	2,488,810
Noninstitutional programs	90,300	90,300
Facilities acquisition and construction	60	60
Debt service	278,161	278,161
Total expenditures/expenses	24,673,075	24,673,075
Excess of revenues over expenditures/expenses	305,176	305,176
Other financing uses, net	275,478	275,478
Excess of revenues and other financing sources over expenditures/expenses and other financing uses	29,698	29,698
Balance, beginning of year	3,954,426	3,954,426
Balance, end of year	\$ 3,984,124	\$ 3,984,124

See accompanying Independent Auditor's Report.

Budget		Final to Actual
Original	Final	Variance Favorable (Unfavorable)
\$ 7,700,030	\$ 6,927,999	\$ 69,953
7,085,085	7,950,288	79,023
9,754,969	10,375,642	(700,132)
24,540,084	25,253,929	(551,156)
-	-	-
-	300,000	(24,522)
-	-	-
-	-	-
660,115	682,523	82,061
13,678,488	14,964,886	(1,418,751)
4,374,036	3,998,173	1,345,011
2,074,884	875,856	102,742
1,531,213	962,674	228,945
898,641	885,930	214,290
920,327	2,515,426	26,616
88,918	90,300	-
-	-	(60)
313,462	278,161	-
24,540,084	25,253,929	580,854
-	-	-
-	300,000	5,176
-	-	-
-	300,000	(24,522)
-	-	-
-	-	29,698
4,947,274	3,954,426	-
\$ 4,947,274	\$ 3,954,426	\$ 29,698

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

OTHER SUPPLEMENTARY INFORMATION

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Schedule 1

**BALANCE SHEET - NONMAJOR GOVERNMENTAL FUND
Year Ended June 30, 2008**

		Debt Service
		<hr/>
	Assets	
Cash and pooled investments		\$ 364,060
Total assets		<hr/> \$ 364,060 <hr/>
	Liabilities and Fund Balances	
Liabilities:		
Total liabilities		<hr/> \$ - <hr/>
Fund balances:		
Unreserved:		
Undesignated		364,060
Total fund balances		<hr/> 364,060 <hr/>
Total liabilities and fund balances		<hr/> \$ 364,060 <hr/>

See Accompanying Independent Auditor's Report.

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUND
Year Ended June 30, 2008**

	<u>Debt Service</u>
Revenues:	
Local sources	\$ 8,854
Total revenues	<u>8,854</u>
Expenditures:	
Debt service	<u>278,161</u>
Total expenditures	<u>278,161</u>
(Deficiency) of revenues (under) expenditures	(269,307)
Other financing sources:	
Transfers in	<u>275,478</u>
Excess of expenditures and other financing uses over revenues and other financing sources	6,171
Fund balances beginning of year	<u>357,889</u>
Fund balances end of year	<u><u>\$ 364,060</u></u>
See accompanying Independent Auditor's Report.	

**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES
BY FUNCTION -- ALL GOVERNMENTAL FUNDS
For the Last Four Years**

	Modified Accrual Basis Years ended June 30,			
	2008	2007	2006	2005
Revenues:				
Local	\$ 6,997,952	\$ 6,592,704	\$ 9,443,187	\$ 6,136,669
State	8,029,311	6,958,751	6,089,199	6,570,193
Federal	9,675,510	9,890,074	9,574,428	8,149,680
Total	\$ 24,702,773	\$ 23,441,529	\$ 25,106,814	\$ 20,856,542
Expenditures:				
Current:				
Instruction	\$ 600,462	\$ 649,697	\$ 600,311	\$ 733,004
Student support services	16,383,637	13,731,170	12,479,304	10,999,916
Instructional staff support services	2,653,162	3,797,579	3,901,029	4,436,652
General administration	773,114	831,913	1,908,045	1,621,130
Business administration	733,729	914,375	1,510,205	537,537
Plant operations and maintenance	671,640	841,481	904,188	526,417
Central and other support services	2,579,110	2,472,812	859,689	860,179
Facilities acquisition and construction	60	308,677	2,199,463	-
Debt service	278,161	886,673	279,652	135,641
Total	\$ 24,673,075	\$ 24,434,377	\$ 24,641,886	\$ 19,850,476

See accompanying independent auditor's report.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

Project Title	CFDA Number	Pass-through	
		Grantor's Number	Expenditures
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Education of Handicapped Act (EHA) Part B - 94-142:			
Special Education - Grants to States (IDEA, Part 3):			
Early Childhood Education for the Handicapped	84.027*	070808	\$ 6,358,071
Early Childhood Education for the Handicapped	84.027*	8KB2-08	1,821,294
Special Education - Preschool Grants (IDEA			
Preschool)- Section 619, Age 3-5	84.173	07619-08	264,983
Special Education - Grants for Infants and Families			
with Disabilities - 94-142 Part C:			
IDEA, Part C, Infants and Toddlers	84.181	C07-08	195,133
Special Education - Grants to States (IDEA, Part 3) -			
Miscellaneous 94-142:			
Diagnostic Evaluation Program	84.027*	7K71-08	1,213
Iowa Assistive Technology Text Reader Project/			
State Planning Group	84.027*	41407	1,753
Parent Educator Project	84.027*	77408	90,300
Para-Educator Project	84.027*	7K76-08	16,085
Every Child Reads 3 to 5	84.027*	7KE4-08	5,980
Instructional Decision Making	84.027*	7K79-08	62,779
Transition Content Coaches	84.323		999
Early Childhood & School Age Language for			
Literacy Project	84.027*		5,000
Systemic Transition Enhancement Program	84.126	08-STEP-02	25,909
Service Learning Grant	84.323	0851-008	3,227
Secondary Professional Development Grant	84.323A	SPDG-08	14,114
Concept Oriented Reading Instruction	84.323		600
Second Chance Reading	84.323	032608	15,000
Reading First	84.357		52,517
Title II Part A - Federal Teacher Quality Program	84.367		17,859
Title III ELL/LEP	84.365		218,372
Our Kids Summer Institute	84.215	6EL1	2,200
Administrator Grant	84.336	6QE1	72,212
Every Learner Inquires Science Initiative	84.367	6TQ2	10,421
Technology Literacy Challenge/E2T2	84.318**	6TL3	349,587
Total U. S. Department of Education			9,605,608

(Continued on next page)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
U. S. Department of Health and Human Services:			
Passed-Through Iowa Department of Human Services:			
Medical Assistance Program -			
Part B	93.778		\$ 1,828
Part C	93.778		35,630
Temporary Assistance for Needy Families (TANF)	93.558		32,444
Total Department of Health and Human Services			69,902
Total Expenditures of Federal Awards			\$ 9,675,510

* Total expenditures for CFDA Number 84.027 were \$8,362,475.

** Total expenditures for CFDA Number 84.318 were \$349,587.

Basis of Presentation: The Schedule of Expenditures of Federal Awards includes the federal grant activity of Prairie Lakes Area Education Agency 8 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

PRAIRIE LAKES AREA EDUCATION AGENCY 8



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Prairie Lakes Area Education Agency 8
Fort Dodge, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 (the "Agency"), as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated November 10, 2008. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency and a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with US general accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we believe item II-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance or other matters that is described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Agency's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency, and other parties to whom the Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Prairie Lakes Area Education Agency 8 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 10, 2008

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

PRAIRIE LAKES AREA EDUCATION AGENCY 8



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Prairie Lakes Area Education Agency 8
Fort Dodge, Iowa

Compliance

We have audited the compliance of Prairie Lakes Area Education Agency 8 (the "Agency") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Agency's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Agency's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, including a material weakness.

A control deficiency in the Agency's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-08 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Agency's internal control. Of the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item III-A-08 to be a material weakness.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency and other parties to whom the Agency may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 10, 2008

PRAIRIE LAKES AREA EDUCATION AGENCY 8

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs was disclosed by the audit of financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
 - CFDA Number 84.027 – Special Education – Grants to States
 - CFDA Number 84.318 – Education Technology State Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Prairie Lakes Area Education Agency 8 qualified as a low-risk auditee.

Part II: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiency:

II-A-08 Segregation of Duties: One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. We noted that the preparation of the deposit, cash receipts journal, maintenance of accounts receivable subsidiary ledger, general journal preparation and account write-offs are all controlled by one person.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the Agency should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response: We will investigate available alternatives and implement as soon as possible.

Conclusion: Response accepted.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2008**

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiency:

All programs displayed on the schedule of expenditures of Federal awards.

III-A-08 Segregation of Duties: The Agency did not properly segregate record keeping and reconciling functions for cash receipts, including those related to Federal programs. See audit finding II-A-08.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-08 Budget: Expenditures during the year ended June 30, 2008 did not exceed the amount budgeted.

IV-B-08 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-08 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

IV-D-08 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.

IV-E-08 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-F-08 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes, but were not.

IV-G-08 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.

IV-H-08 Certified Annual Report: The Certified Annual Report was certified timely to the Iowa Department of Education.

PRAIRIE LAKES AREA EDUCATION AGENCY 8

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2008**

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Prairie Lakes Area Education Agency 8 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 10, 2008